INVESTING FOR GROWTH

UFP TECHNOLOGIES

2014 ANNUAL REPORT

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UFP Technologies, Inc. (Nasdaq: UFPT) is a producer of innovative custom-engineered components, products, and specialty packaging.

Using foams, plastics, composites, and natural fiber materials, we design and manufacture a vast range of solutions primarily for the medical, automotive, aerospace and defense, electronics, consumer and industrial markets. Our team acts as an extension of customers' in-house research, engineering, and manufacturing groups, working closely with them to solve their most complex product and packaging challenges.

Learn more about us at www.ufpt.com.

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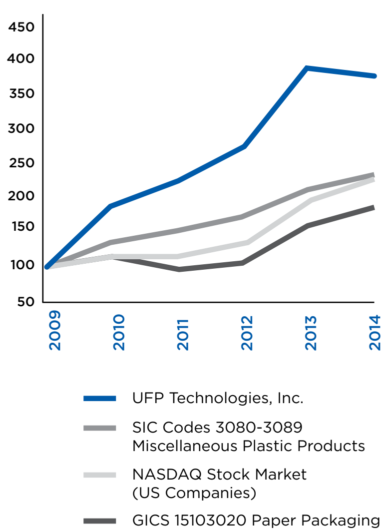
“*We believe these investments will improve UFP’s ability to compete in many important ways.*”

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN
ASSUMES INITIAL INVESTMENT OF $100
DECEMBER 2014



DEAR FELLOW SHAREHOLDER,

For UFP Technologies, 2014 was a year of solid accomplishment. We made great progress on a number of strategic initiatives designed to strengthen our operating platform, accelerate sales growth, and position your Company for long-term success.

As expected, these investments had a direct impact on our year-end results. After eight straight years of record earnings, our net income in 2014 was $7.6 million, compared to $11.3 million in 2013. However, going forward we believe these investments will improve UFP’s ability to compete in many important ways.

A STRONGER FACTORY FOOTPRINT Several years ago, we made a strategic decision to create a more focused and efficient factory footprint. Rather than maintain multiple small plants in any one region, we resolved to create a tighter network of larger, strategically located, very well-equipped facilities.

In each one, we wanted to assemble a critical mass of technical expertise, including engineering, quality, and manufacturing resources. By concentrating these problem-solving resources under one roof, we knew they could collaborate more easily, feed off each other’s ideas, and provide even better service to our customers. To execute this strategy, we began a series of factory moves in 2014.

PLANT CONSOLIDATIONS IN MICHIGAN AND CALIFORNIA First, we consolidated our Illinois operation into our 250,000-square-foot Grand Rapids, Michigan facility. We then completed a similar project in California, bringing our Costa Mesa operation into our nearby Rancho Dominguez facility. In each case, we took advantage of an expiring lease to lower operating costs and improve manufacturing efficiency. Both consolidations were completed on time and on budget. Both will bring significant cost savings for many years to come. And both will help us deliver more value to customers in those regions.

A NEW FACILITY IN TEXAS—AND ANOTHER COMING SOON IN MASSACHUSETTS We also invested $3 million to purchase a 128,000-square-foot facility in El Paso, Texas. In this new plant, we improved the efficiency of our foam fabricating operation and added new state-of-the-art molded fiber production lines to meet the growing demand in the Southwest for our environmentally-friendly packaging. Previously, we had to ship products to local customers from our Iowa plant more than 1,000 miles away. This new facility expands our capacity and allows us to respond more efficiently to customer requests.

In total, we invested about $6.5 million to optimize our footprint in 2014, and another $7.7 million to purchase new capital equipment. We believe it's an excellent use of a portion of the cash reserves we've built up over the years, and we estimate that these investments will pay for themselves in three years or less.

And we're not done yet. In January 2015, we purchased a 137,000-square-foot factory in Newburyport, Massachusetts, in which we plan to combine our Northeast operations. As with all our regional consolidations, we expect to gain major operating efficiencies once this effort is complete. At that point, we will have greatly improved our facilities in four regions—Midwest, West Coast, Southwest, and Northeast.

PROGRESS ON OTHER KEY INITIATIVES In some of the year's other main accomplishments:

- We converted four more plants to our new Enterprise Resource Planning system.
- We invested in a new Customer Relationship Management system to help us forecast, analyze trends, and serve customers better.
- We enhanced production capabilities and quality systems for our medical customers in several plants.
- We added new talent across the organization, including senior leadership in engineering and sales.

We will discuss each of these important initiatives in the following pages.

IN SHORT, YOUR COMPANY IS STRONG AND GETTING STRONGER While certain target markets such as defense remain challenging, we anticipate double-digit growth in our medical business, coupled with strong demand for our molded fiber packaging products. We also expect steadily improving results in our new Texas operation as we quickly ramp up sales.

Looking ahead, we will continue to invest in market opportunities that best fit our industry-leading engineering and materials expertise. For customers with complex needs, no one offers greater problem-solving skills or a longer track record of success. We will also continue to explore strategic acquisitions that can increase the value we bring to customers. As we identify opportunities, our experienced management team and strong balance sheet will enable us to act quickly.

For all of the changes in 2014, our most important attributes remain the same. Our commitment to customers' success. Our culture of integrity, innovation, and excellent customer service. These traits have served us well for decades, and I believe our best years are yet to come. I hope you agree, and I thank you for your support of UFP Technologies.

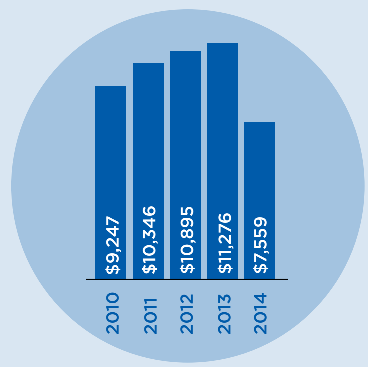
Sincerely,

R. Jeffrey Bailly

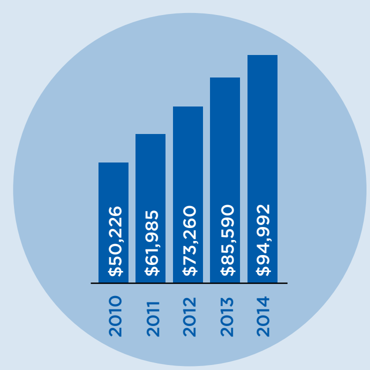
R. Jeffrey Bailly
Chairman and CEO

REVENUE

NET INCOME



SHAREHOLDERS' EQUITY



INVESTING IN TECHNOLOGY

New systems and equipment help us operate more effectively and meet new market challenges.

In 2014, we continued to upgrade our technologies and production resources. We added four plants to our new Enterprise Resource Planning system, and will complete our Company-wide implementation in 2015. This system enables us to centralize many functions and respond more quickly to customer requests. It also provides insights to help us make more informed decisions on everything from resource allocation to product development. And it helps us share best practices among plants more easily.

We've expanded production resources for the fast-growing medical/biotech market.

In 2014, we also invested in a new Customer Relationship Management system, which will provide a new level of visibility into customer information. This will make account planning and forecasting easier, and help us serve customers better.

In addition, we invested in new production resources for our fastest growing markets. For example, our $7 million investment in new molded fiber equipment in Texas will help us meet the rising demand for eco-friendly packaging solutions. We also expanded clean room capacity and added new high-speed die cutting and thermoforming equipment for our medical and biotech customers. These initiatives are all aimed at accelerating growth, enhancing efficiency, and improving our long-term profitability.

We added four plants to our Enterprise Resource Planning system, and will complete the implementation in 2015.

Our strategy is to create a network of larger, well-equipped facilities in key locations.

OPTIMIZING OUR FOOTPRINT

Consolidating plants around the country strengthens our platform and increases efficiency.

In the Midwest, Southwest, and West Coast regions, we have taken action to consolidate several small local facilities into one larger plant. Soon, we will do the same in the Northeast. Why? In one sense, it's part of our Company's natural evolution. We've made many strategic acquisitions over the years, and some of these have left us with multiple, often redundant, plants in the same area. As leases have expired and business has grown, we have taken the opportunity to optimize our network. And we believe a more focused footprint offers critical advantages.

First, having fewer larger plants in strategic locations, and providing more solutions from each one, reduces operating costs in a number of ways and enables us to centralize many functions. It also helps us focus resources where they're needed most, and bring more value to customers where demand is greatest.

Second, bringing more team members under one roof enhances communication and collaboration. When it comes to sharing knowledge and rapidly solving our customers' toughest problems, it's hard to beat regular face-to-face interactions among talented people. For all these reasons, we expect our new platform to provide significant benefits going forward.

Bringing more team members under one roof enhances communication and collaboration.

STRENGTHENING OUR TEAM

Adding new engineering and sales talent improves our ability to capture new opportunities.

Talent, very simply, is the principal driver of our success. Much more than any new equipment or technology, it is our people who truly set us apart and provide an advantage no competitor can match.

Our team is known for solving customers' most complex product and packaging challenges.

For example, over the years we have built a uniquely skilled and experienced engineering team. Their ability to design effective solutions to complex problems is well-known in the industry and highly valued by our customers. And it's often the main reason customers trust us to meet their most critical product and packaging needs. Superior engineering is a cherished asset that will always be a central focus of our Company. In 2014, we added a stellar group of talented professionals to help take our Company to the next level.

We also expanded other teams to support quality initiatives, improve customer service and drive revenue growth. By increasing our team's strength and bandwidth, we're in a better position to capture more opportunities that best fit our unique skills. Great people make the difference; we continuously search for talented, motivated professionals who can thrive in our culture of innovation.

Our culture of innovation continues to help attract the industry's top talent.

We expect continued strong demand for our medical/biotech products.

INCREASING CUSTOMER VALUE

Expanding our capabilities allows us to solve more customer problems.

Our customer list includes thousands of companies, many of them leaders in their respective markets. Some of these relationships go back decades, for several key reasons. First and foremost, they place a very high value on our problem-solving skills. They also appreciate our broad range of capabilities, which allows them to address many issues with one phone call. And they benefit from our strong supplier relationships, which provides them access to the industry's broadest range of strategic materials. We will continue to work on building our competitive advantages in each of these areas.

The diversity of our customer base is very important to us. With six strategic target markets, we can respond to market changes by allocating resources where opportunities are greatest at any given time. For example, over the past few years we have seen the strongest growth among our medical/biotech and molded fiber packaging customers. So we have focused on enhancing our capabilities and concentrating our sales and engineering resources in these areas.

When you get right down to it, all of our 2014 investments—in facilities, technologies, equipment and personnel—have one overriding goal: increasing the value we bring to customers. That's the driving force behind each of these decisions, and the key to our future growth.

Our solutions bring important benefits to customers and end users, such as automotive components that can make cars lighter, quieter, and safer.

SELECTED FINANCIAL DATA

The following table summarizes our consolidated financial data for the periods presented. You should read the following financial information together with the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes to those financial statements appearing elsewhere in this Report. The selected statements of operations data for the fiscal years ended December 31, 2014, 2013 and 2012, and the selected balance sheet data as of December 31, 2014 and 2013, are derived from our audited consolidated financial statements, which are included elsewhere in this Report. The selected statements of operations data for the years ended December 31, 2011 and 2010, and the balance sheet data at December 31, 2011 and 2010 are derived from our audited consolidated financial statements not included in this Report.

SELECTED CONSOLIDATED FINANCIAL DATA

	Years Ended December 31 (in thousands, except per share data)				
Consolidated statement of operations data	**2014**	**2013**	**2012**	**2011**	**2010**
Net sales	$ 139,307	$ 139,223	$ 130,962	$ 127,244	$ 120,766
Gross profit	36,880	41,014	38,319	36,245	34,616
Operating income	11,561	17,398	16,666	15,716	14,392
Net income	7,559	11,276	10,895	10,346	9,247
Diluted earnings per share	1.05	1.59	1.55	1.48	1.37
Weighted average number of diluted shares outstanding	7,175	7,105	7,028	6,999	6,749

	As of December 31 (in thousands)				
Consolidated balance sheet data	**2014**	**2013**	**2012**	**2011**	**2010**
Working capital	$ 56,800	$ 56,398	$ 51,263	$ 48,575	$ 38,267
Total assets	113,690	104,908	98,617	79,721	69,478
Short-term debt obligations	993	976	1,550	581	654
Long-term debt, excluding current portion	1,873	2,867	8,314	5,639	6,847
Total liabilities	18,698	19,318	25,357	17,736	19,251
Stockholders' equity	94,992	85,590	73,260	61,985	50,226

MARKET PRICE

From July 8, 1996, until April 18, 2001, the Company's common stock was listed on the NASDAQ National Market under the symbol "UFPT." Since April 19, 2001, the Company's common stock has been listed on the NASDAQ Capital Market. The following table sets forth the range of high and low quotations for the common stock as reported by NASDAQ for the quarterly periods from January 1, 2013 to December 31, 2014:

Fiscal Year Ended December 31, 2013	High	Low
First Quarter	$ 20.00	$ 18.00
Second Quarter	20.49	18.06
Third Quarter	22.97	19.38
Fourth Quarter	26.18	21.86

Fiscal Year Ended December 31, 2014	High	Low
First Quarter	$ 26.60	$ 23.27
Second Quarter	27.43	23.12
Third Quarter	25.92	21.05
Fourth Quarter	25.45	20.55

NUMBER OF STOCKHOLDERS

As of March 6, 2015, there were 77 holders of record of the Company's common stock.

Due to the fact that many of the shares are held by brokers and other institutions on behalf of stockholders, the Company is unable to estimate the total number of individual stockholders represented by these holders of record.

DIVIDENDS

The Company did not pay any dividends in 2013 or 2014. The Company presently intends to retain all of its earnings to provide funds for the operation of its business and strategic acquisitions, although it would consider paying cash dividends in the future. Any decision to pay dividends will be at the discretion of the Company's board of directors and will depend upon the Company's operating results, strategic plans, capital requirements, financial condition, provisions of the Company's borrowing arrangements, applicable law and other factors the Company's board of directors considers relevant.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

UFP Technologies is an innovative designer and custom converter of foams, plastics, composites and natural fiber materials, providing solutions to customers primarily within the medical, automotive, consumer, electronics, industrial and aerospace and defense markets.

During the third quarter of 2014, in conjunction with the consolidation of operations in Michigan and the consolidation of the Company's sales force, the Company determined that the existing segment aggregation of Component Products and Packaging was no longer consistent with how the business is structured and reviewed by the Chief Operating Decision Maker (the "CODM"). This is primarily because the Company has numerous manufacturing processes that are duplicated through its plants allowing it to move workload based on available capacity and proximity to customers. The CODM evaluates consolidated financial information to manage the business. As a result, the Company has determined that it consists of a single operating and reportable segment.

In 2014, the Company undertook several initiatives to streamline operations that had a material impact on operating results. It consolidated plants in the Midwest and in California and relocated its operations in El Paso, Texas to a newly acquired building. In addition to one-time costs to physically relocate equipment, pay severance to employees choosing not to relocate and restore vacated buildings to their original condition, the Company had manufacturing inefficiencies associated with requalifying parts for customers and training new employees. The company estimates these costs collectively to be slightly in excess of $2.6 million.

In January 2015, the Company acquired a 137,000 square foot commercial building on 27 acres in Newburyport, Massachusetts for approximately $6.8 million. The Company anticipates that it will further expand the property and consolidate portions of its Northeast operations into its new property in multiple phases between 2015 and 2017. It expects to incur further costs with the consolidation but also expects the efficiency savings to be significant. It has not yet estimated either the one-time costs or efficiency gains in a potential consolidation of operations.

The Company's strategy includes further organic growth and growth through strategic acquisitions.

RESULTS OF OPERATIONS

The following table sets forth, for the years indicated, the percentage of revenues represented by the items as shown in the Company's consolidated statements of operations:

	2014	**2013**	**2012**
Net sales	100.0%	100.0%	100.0%
Cost of sales	73.5%	70.5%	70.7%
Gross profit	**26.5%**	**29.5%**	**29.3%**
Selling, general, and administrative expenses	17.1%	17.0%	16.5%
Restructuring costs	1.1%	0.0%	0.0%
(Gain) loss on sale of fixed assets	0.0%	0.0%	0.0%
Operating income	**8.3%**	**12.5%**	**12.8%**
Total other (income) expenses, net	-0.1%	0.2%	0.1%
Income before taxes	**8.4%**	**12.3%**	**12.7%**
Income tax expense	3.0%	4.2%	4.4%
Net income from consolidated operations	**5.4%**	**8.1%**	**8.3%**

2014 COMPARED TO 2013

Sales

Net sales increased 0.1% to $139.3 million for the year ended December 31, 2014, from net sales of $139.2 million in 2013, primarily due to increases in sales in the aerospace and defense and medical markets of approximately 10% and 2%, respectively, partially offset by sales decline in the automotive market of approximately 6%. The increase in sales to the aerospace and defense market was largely due to an increase in sales of approximately $2.1 million for a low-margin contract manufacturing program. Absent this increase, sales to the aerospace and defense market declined approximately 6% due primarily to cuts in government spending. The decline in sales to the automotive market was primarily due to the phase-out of an interior trim program coupled with soft demand for parts for a specific model of car that has had weak demand from consumers.

Gross Profit

Gross profit as a percentage of sales ("Gross Margin") declined to 26.5% for the year ended December 31, 2014, from 29.5% in 2013. As a percentage of sales, material and direct labor collectively increased approximately 1.5% and overhead as a percentage of sales increased approximately 1.5% or approximately $2 million in 2014. The increase in material and direct labor was a result of manufacturing inefficiencies incurred as a result of plant moves in the Midwest, California and Texas as well as an increase in sales for a low-margin contract manufacturing military program. The increase in overhead was primarily due to increased employee health care costs of approximately $600,000 due to a higher than typical frequency of large claims, increased compensation and benefits of approximately $450,000 due to normal inflationary increases as well as higher overtime incurred as a result of the plant moves, increased plant and equipment maintenance costs of approximately $290,000 due to the various plant moves and higher depreciation of approximately $220,000 due largely to new molded fiber equipment.

Selling, General and Administrative Expenses

Selling, General, and Administrative Expenses ("SG&A") increased 1.0% to $23.8 million for the year ended December 31, 2014 from $23.6 million in 2013. The increase in SG&A for the year ended December 31, 2014, is primarily due to higher depreciation costs of $160,000, largely associated with the Company's new Enterprise Resource Planning ("ERP") software system, increased bad debt expense of approximately $140,000 due largely to a one-time write-off and increased employee health care costs of approximately $184,000 due largely to a higher than typical frequency of large claims, partially offset by lower sales commissions of approximately $100,000 due to soft sales compared to the Company's budgeted sales, lower advertising costs incurred of approximately $70,000 and lower intangibles amortization of approximately $85,000.

Restructuring Costs

On January 7, 2014, the Company committed to move forward with a plan to cease operations at its Glendale Heights, Illinois plant and consolidate operations into its Grand Rapids, Michigan, facility. The Company's decision was in response to a pending significant increase in lease cost, declining sales at the Illinois facility, and significant anticipated savings as a result of the consolidation. The consolidation into the Michigan facility is complete and the actual costs incurred are included in the table below.

On July 16, 2014, the Company committed to move forward with a plan to cease operations at its Costa Mesa, California, plant and consolidate operations into its Rancho Dominguez, California, facility and other UFP facilities. The Company's decision was in response to the upcoming December 31, 2014, expiration of the lease on the Costa Mesa facility as well as the close proximity of the two properties. This consolidation is substantially complete and the actual costs incurred through December 31, 2014 are included in the table below.

The Company has recorded the following restructuring costs associated with the plant consolidations discussed above for the year ended December 31, 2014 (in thousands):

Restructuring Costs	**Michigan**	**California**	**Total**
Employee severance payments	$ 237	$ 10	$ 247
Relocation costs	356	501	857
Workforce training costs	373	-	373
Plant infrastructure costs	79	-	79
Total restructuring costs	**$ 1,045**	**$ 511**	**$ 1,556**

These costs were reclassified in the 2014 Consolidated Statement of Operations as "Restructuring Costs" as follows: $1,385,000 from Cost of Sales, $82,000 from Selling, General and Administrative expenses and $89,000 from Gain on sales of property, plant and equipment. The Company also incurred approximately $373,000 and $38,000, in related capital improvements at its Michigan and California facilities, respectively, for the year ended December 31, 2014.

Interest Expense
Interest expense net of interest income decreased to approximately $108,000 for the year ended December 31, 2014 from net interest expense of approximately $205,000 in 2013. The decrease in interest expense is primarily due to a lower average debt balance as a result of the Company's repayment of term loans in conjunction with the execution of a new revolving credit facility in the fourth quarter of 2013.

Income Taxes
The Company recorded income tax expense as a percentage of income before income tax expense, of 35.8% and 34.4% for the years ended December 31, 2014 and 2013, respectively. The increase in the effective tax rate for the year ended December 31, 2014 is primarily attributable to permanent differences measured against lower pre-tax income as well as additional reserves of approximately $150,000 for uncertain tax positions. The Company has deferred tax assets on its books associated with net operating losses generated in previous years. The Company has considered both positive and negative available evidence in its determination that the deferred tax assets are more likely than not to be realized, and has not recorded a tax valuation allowance at December 31, 2014. The Company will continue to assess whether the deferred tax assets will be realizable and, when appropriate, will record a valuation allowance against these assets. The amount of the net deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry-forward period are reduced.

2013 COMPARED TO 2012

Sales
Net sales increased 6.3% to $139.2 million for the year ended December 31, 2013, from net sales of $131.0 million in 2012 (including sales from Packaging Alternatives Corporation ("PAC"), which the Company acquired in 2012). The increase in net sales was primarily due to an additional $10.3 million in sales from PAC—which were primarily to the medical market—as well as a 21.3% increase in sales of our molded fiber packaging product due to increased demand for environmentally friendly packaging solutions. Excluding sales at PAC, net sales decreased 1.5% largely due to a 28% decline in sales to the aerospace and defense market due to government cuts in defense spending.

Gross Profit
Gross profit as a percentage of sales ("Gross Margin") increased 0.2% to 29.5% for the year ended December 31, 2013, from 29.3% in 2012. As a percentage of sales, material and direct labor collectively decreased by 0.6% in 2013, due primarily to an improved book of business. This decrease was partially offset by an increase in overhead as a percentage of sales of 0.4% due largely to increased depreciation expense associated with new machinery.

Selling, General and Administrative Expenses
Selling, General, and Administrative Expenses ("SG&A") increased 9.0% to $23.6 million for the year ended December 31, 2013, from $21.7 million in 2012. The increase in SG&A for the year ended December 31, 2013, is primarily due to increased SG&A at PAC. Excluding PAC, SG&A declined approximately $100,000, or 0.5% from 2012, primarily due to a reduction in incentive compensation of approximately $700,000 partially offset by an increase in professional fees of approximately $390,000 due to higher audit and compliance fees as well as increased expenses associated with the implementation of ERP software and an increase in net selling expenses of approximately $300,000 due largely to the investment in additional sales resources. As a percentage of sales, SG&A increased slightly to 17.0% for the year ended December 31, 2013, from 16.5% for the same period in 2012. The slight increase in SG&A as a percentage of sales is primarily due to relatively fixed SG&A expenses measured against lower organic sales.

Interest Expense
Interest expense net of interest income increased to approximately $205,000 for the year ended December 31, 2013, from net interest expense of approximately $90,000 in 2012. The increase in interest expense is primarily attributable to increased debt levels during the year associated with financing molded fiber equipment.

Income Taxes
The Company recorded income tax expense as a percentage of income before income tax expense, of 34.4% and 34.3% for the years ended December 31, 2013 and 2012, respectively. The slight increase in the effective tax rate for the year ended December 31, 2013, is primarily attributable to higher anticipated state taxes. The Company has deferred tax assets on its books associated with net operating losses generated in previous years. The Company has considered both positive and negative available evidence in its determination that the deferred tax assets are more likely than not to be realized, and has not recorded a tax valuation allowance at December 31, 2013. The Company will continue to assess whether the deferred tax assets will be realizable and, when appropriate, will record a valuation allowance against these assets. The amount of the net deferred tax asset considered realizable, however, could be reduced in the near term, if estimates of future taxable income during the carry-forward period are reduced.

LIQUIDITY AND CAPITAL RESOURCES

The Company generally funds its operating expenses, capital requirements, and growth plan through internally generated cash and bank credit facilities.

Cash Flows

Net cash provided by operations for the year ended December 31, 2014, was approximately $11.2 million and was primarily a result of net income generated of approximately $7.5 million and an increase in accounts payable of approximately $2.3 million due to the timing of vendor payments in the ordinary course of business. These cash inflows were partially offset by an increase in inventory of approximately $1.8 million due to the timing of raw materials purchases and customer shipments and a decrease in accrued expenses of approximately $2.2 million due to reduced payroll related accruals and reduced customer deposits.

Net cash used in investing activities during the year ended December 31, 2014, was approximately $13.3 million and was primarily the result of additions of manufacturing machinery and equipment, including a new molded fiber line in Texas and the purchase of commercial real estate in Texas.

Net cash used in financing activities was approximately $1.1 million for the year ended December 31, 2014, representing cash used to service term debt of approximately $1.0 million, to pay a contingent note payable related to the PAC acquisition of approximately $800,000 and to pay statutory withholding for stock options exercised and restricted stock units vested of approximately $831,000, partially offset by excess tax benefits on share-based compensation of approximately $1.2 million, and net proceeds received upon stock option exercises of approximately $336,000.

Outstanding and Available Debt

The Company maintains an unsecured $40 million revolving credit facility with Bank of America, N.A. The credit facility calls for interest of LIBOR plus a margin that ranges from 1.0% to 1.5% or, at the discretion of the Company, the bank's prime rate less a margin that ranges from 0.25% to zero. In both cases the applicable margin is dependent upon Company performance. Under the credit facility, the Company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant. The Company's $40 million credit facility matures on November 30, 2018.

As of December 31, 2014, the Company had no borrowings outstanding under the credit facility and the Company was in compliance with all covenants under the credit facility.

In 2012, the Company financed the purchase of two molded fiber machines through five-year term loans that mature in September 2017. The annual interest rate is fixed at 1.83% and the loans are secured by the related molded fiber machines. As of December 31, 2014, the outstanding balance of the term loan facility was approximately $2.9 million.

Future Liquidity

The Company requires cash to pay its operating expenses, purchase capital equipment, and to service its contractual obligations. The Company's principal sources of funds are its operations and its revolving credit facility. The Company generated cash of approximately $11.2 million in operations during the year ended December 31, 2014, and cannot guarantee that its operations will generate cash in future periods. The Company's longer-term liquidity is contingent upon future operating performance.

In January 2015, the Company acquired a 137,000 square foot commercial building on 27 acres in Newburyport, Massachusetts for approximately $6.8 million. The Company anticipates that it will further expand the property and consolidate portions of its Northeast operations into its new property in multiple phases between 2015 and 2017. It expects to incur further costs with the consolidation but also expects the efficiency savings to be significant. It has not yet estimated either the one-time costs or efficiency gains in a potential consolidation of operations.

Throughout fiscal 2015, the Company plans to continue to add capacity to enhance operating efficiencies in its manufacturing plants. The Company may consider additional acquisitions of companies, technologies, or products that are complementary to its business. The Company believes that its existing resources, including its revolving credit facility, together with cash expected to be generated from operations and funds expected to be available to it through any necessary equipment financings and additional bank borrowings, will be sufficient to fund its cash flow requirements, including capital asset acquisitions, through the next twelve months.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following table summarizes the Company's contractual obligations at December 31, 2014 (in thousands):

	Payment Due By Period				
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Equipment loans	$ 2,866	$ 994	$ 1,872	$ -	$ -
Operating leases	3,796	1,443	2,262	91	-
Debt interest	75	43	32	-	-
Supplemental retirement	125	25	50	50	-
Total	**$ 6,862**	**$ 2,505**	**$ 4,216**	**$ 141**	**$ -**

The Company requires cash to pay its operating expenses, purchase capital equipment, and to service the obligations listed above. The Company's principal sources of funds are its operations and its revolving credit facility. Although the Company generated cash from operations in the year ended December 31, 2014, it cannot guarantee that its operations will generate cash in future periods. Subject to the Risk Factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the "10-K") and the general disclaimers set forth in our Special Note Regarding Forward-Looking Statements at the outset of the 10-K (and at the end of this report), we believe that cash flow from operations will provide us with sufficient funds in order to fund our expected operations over the next twelve months.

The Company does not believe inflation has had a material impact on its results of operations in the last three years.

OFF-BALANCE-SHEET ARRANGEMENTS

The Company had no off-balance-sheet arrangements in 2014, other than operating leases.

CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, intangible assets, income taxes, warranty obligations, restructuring charges, contingencies, and litigation. The Company bases its estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances, including current and anticipated worldwide economic conditions, both in general and specifically in relation to the packaging and component product industries, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company's significant accounting policies are described in Note 1 to the consolidated financial statements included in this Report. The Company believes the following critical accounting policies necessitated that significant judgments and estimates be used in the preparation of its consolidated financial statements.

The Company has reviewed these policies with its Audit Committee.

- **Revenue Recognition** The Company recognizes revenue at the time of shipment when title and risk of loss have passed to the customer, persuasive evidence of an arrangement exists, performance of its obligation is complete, its price to the buyer is fixed or determinable, and the Company is reasonably assured of collection. If a loss is anticipated on any contract, a provision for the entire loss is made immediately. Determination of these criteria, in some cases, requires management's judgment. Should changes in conditions cause management to determine that these criteria are not met for certain future transactions, revenue for any reporting period could be adversely affected.

- **Goodwill** Goodwill is tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level, but can be combined when reporting units within the same segment have similar economic characteris-tics. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. As of September 30, 2014, the Company consists of a single reporting unit. In conjunction with a reassessment of our reportable segments (See Note 19 to the consolidated financial statements), we performed step 1 of the goodwill impairment test as of September 30, 2014. We utilized the guideline public company ("GPC") method under the market approach and the discounted cash flows method ("DCF") under the income approach to determine the fair value of the reporting unit for purposes of testing the reporting unit's carrying value of goodwill for impairment. The GPC method derives a value by generating a multiple of EBITDA through the comparison of the Company to similar publicly traded companies. The DCF approach derives a value based on the present value of a series of estimated future cash flows at the valuation date by the application of a discount rate, one that a prudent investor would require before making an investment in our equity securities. The key assumptions used in our approach included:

    - The reporting unit's 2014 estimated financials and five-year projections of financial results, which were based on our strategic plans and long-range forecasts. Sales growth rates represent estimates based on current and forecasted sales mix and market conditions. The profit margins were projected based on historical margins, projected sales mix, current expense structure and anticipated expense modifications.

    - The projected terminal value which reflects the total present value of projected cash flows beyond the last period in the DCF. This value reflects a growth rate for the reporting unit, which is approximately the same growth rate of expected inflation into perpetuity.

    - The discount rate determined using a Weighted Average Cost of Capital method ("WACC"), which considered market and industry data as well as Company-specific risk factors.

    - Selection of guideline public companies which are similar to each other and to the Company.

As of September 30, 2014, based on our calculations under the above noted approach, the fair value of the reporting unit exceeded its carrying value by approximately $69.0 million or 74%. In performing these calculations, management used its most reasonable estimates of the key assumptions discussed above. Based on management's review, if any of these individual key assumptions were to change, or if a combination of these key assumptions were to change, the fair value of the reporting unit could be reduced below the carrying value. As a result, if our actual operating results and/or the key assumptions utilized in management's calculations differ from our expectations, it is possible that a future impairment charge may be necessary.

As the Company has elected our fiscal year-end as the annual impairment testing date, the Company assessed qualitative factors as of December 31, 2014, and determined that as there were no material changes in the results of operations or financial condition from the September 30, 2014 impairment test, it was more likely than not that the fair value of its reporting unit exceeded its carrying amount at December 31, 2014. Factors considered included financial performance, forecasts and trends, market cap, regulatory and environmental issues, macro-economic conditions, industry and market considerations, raw material costs and management stability

- **Accounts Receivable** The Company periodically reviews the collectability of its accounts receivable. Provisions are recorded for accounts that are potentially uncollectible. Determining adequate reserves for accounts receivable requires management's judgment. Conditions impacting the realizability of the Company's receivables could cause actual asset write-offs to be materially different than the reserved balances as of December 31, 2014.

- **Inventories** Inventories include material, labor, and manufacturing overhead and are valued at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

  The Company periodically reviews the realizability of its inventory for potential obsolescence. Determining the net realizable value of inventory requires management's judgment. Conditions impacting the realizability of the Company's inventory could cause actual asset write-offs to be materially different than the Company's current estimates as of December 31, 2014.

- **Recent Accounting Pronouncements** Refer to Note 1, "Summary of Significant Accounting Policies," in the accompanying notes to the consolidated financial statements for a discussion of recent accounting pronouncements.

  There were no new accounting pronouncements adopted during 2014 that had a material effect on our consolidated financial statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion of the Company's market risk includes "forward-looking statements" that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

Market risk represents the risk of changes in value of a financial instrument caused by fluctuations in interest rates, foreign exchange rates, and equity prices. At December 31, 2014, the Company's cash and cash equivalents consisted of bank accounts in U.S. dollars, and their valuation would not be affected by market risk. Interest under the Company's credit facility with Bank of America, N.A. is based upon either the Prime rate or LIBOR and, therefore, future operations could be affected by interest rate changes. However, as of December 31, 2014, the Company had no borrowings outstanding under the revolving credit facility, and the Company believes the market risk associated with the facility is minimal.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of UFP Technologies, Inc.

We have audited the accompanying consolidated balance sheets of UFP Technologies, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of UFP Technologies, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 13, 2015 expressed an unqualified opinion.

Grant Thornton LLP

GRANT THORNTON LLP
Boston, Massachusetts
March 13, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of UFP Technologies, Inc.

We have audited the internal control over financial reporting of UFP Technologies, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2014, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in the 2013 Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2014, and our report dated March 13, 2015 expressed an unqualified opinion on those financial statements.

Grant Thornton LLP

GRANT THORNTON LLP
Boston, Massachusetts
March 13, 2015

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA)

	DECEMBER 31	
ASSETS	**2014**	**2013**
Current assets:		
Cash and cash equivalents	$ 34,052	$ 37,303
Receivables, net	16,470	17,032
Inventories	12,893	11,048
Prepaid expenses	664	690
Refundable income taxes	3,192	1,537
Deferred income taxes	1,142	1,110
Total current assets	**68,413**	**68,720**
Property, plant, and equipment	75,823	64,574
Less accumulated depreciation and amortization	(40,980)	(39,067)
Net property, plant, and equipment	34,843	25,507
Goodwill	7,322	7,322
Intangible assets, net	953	1,346
Other assets	2,159	2,013
Total assets	**$ 113,690**	**$ 104,908**

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,398	$ 3,081
Accrued expenses	5,222	8,265
Current installments of long-term debt	993	976
Total current liabilities	**11,613**	**12,322**
Long-term debt, excluding current installments	1,873	2,867
Deferred income taxes	3,588	2,324
Retirement and other liabilities	1,624	1,805
Total liabilities	**18,698**	**19,318**
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, $.01 par value. Authorized 1,000,000 shares; zero shares issued or outstanding	—	—
Common stock, $.01 par value. Authorized 20,000,000 shares; issued and outstanding 7,068,815 shares in 2014 and 6,900,683 in 2013	71	69
Additional paid-in capital	22,132	20,291
Retained earnings	72,789	65,230
Total stockholders' equity	**94,992**	**85,590**
Total liabilities and stockholders' equity	**$ 113,690**	**$ 104,908**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Years Ended December 31		
	2014	**2013**	**2012**
Net sales	$ 139,307	$ 139,223	$ 130,962
Cost of sales	102,427	98,209	92,643
Gross profit	**36,880**	**41,014**	**38,319**
Selling, general, and administrative expenses	23,847	23,605	21,665
Restructuring costs	1,556	—	—
(Gain) loss on sales of property, plant, and equipment	(84)	11	(12)
Operating Income	**11,561**	**17,398**	**16,666**
Other expenses:			
Interest expense, net	108	205	90
Other, net	(312)	—	2
Total other (income) expense	(204)	205	92
Income before income tax provision	**11,765**	**17,193**	**16,574**
Income tax expense	4,206	5,917	5,679
Net income from consolidated operations	**7,559**	**11,276**	**10,895**
Net income per share:			
Basic	$ 1.08	$ 1.65	$ 1.63
Diluted	$ 1.05	$ 1.59	$ 1.55
Weighted average common shares:			
Basic	7,028	6,824	6,679
Diluted	7,175	7,105	7,028

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN THOUSANDS)

Years Ended December 31, 2014, 2013 and 2012

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Non-Controlling Interests	Total Stockholders' Equity
Balance at December 31, 2011	**6,555**	**$ 66**	**$ 18,186**	**$ 43,059**	**$ 674**	**$ 61,985**
Share-based compensation	62	—	860	—	—	860
Exercise of stock options net of shares presented for exercise	133	1	364	—	—	365
Net share settlement of restricted stock units and stock option tax withholding	—	—	(672)	—	—	(672)
Excess tax benefits on share-based compensation	—	—	831	—	—	831
Net income	—	—	—	10,895	—	10,895
Distribution to non-controlling interests	—	—	—	—	(674)	(674)
Investment in United Development Company Limited (Note 7)	—	—	(330)	—	—	(330)
Balance at December 31, 2012	**6,750**	**$ 67**	**$ 19,239**	**$ 53,954**	**$ —**	**$ 73,260**
Share-based compensation	38	1	923	—	—	924
Exercise of stock options net of shares presented for exercise	113	1	190	—	—	191
Net share settlement of restricted stock unit and stock option tax withholding	—	—	(879)	—	—	(879)
Excess tax benefits on share-based compensation	—	—	818	—	—	818
Net income	—	—	—	11,276	—	11,276
Balance at December 31, 2013	**6,901**	**$ 69**	**$ 20,291**	**$ 65,230**	**$ —**	**$ 85,590**
Share-based compensation	20	1	1,118	—	—	1,119
Exercise of stock options net of shares presented for exercise	148	1	335	—	—	336
Net share settlement of restricted stock unit and stock option tax withholding	—	—	(831)	—	—	(831)
Excess tax benefits on share-based compensation	—	—	1,219	—	—	1,219
Net income	—	—	—	7,559	—	7,559
Balance at December 31, 2014	**7,069**	**$ 71**	**$ 22,132**	**$ 72,789**	**$ —**	**$ 94,992**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Years Ended December 31		
	2014	**2013**	**2012**
Cash flows from operating activities:			
Net income from consolidated operations	$ 7,559	$ 11,276	$ 10,895
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,376	4,084	2,928
Loss (gain) on sales of property, plant, and equipment	5	11	(12)
Share-based compensation	1,119	924	860
Deferred income taxes	1,232	740	610
Excess tax benefits on share-based compensation	(1,219)	(818)	(832)
Changes in operating assets and liabilities, net of effects from acquisition:			
Receivables, net	562	804	(842)
Inventories	(1,845)	(1,353)	801
Prepaid expenses	26	(36)	(65)
Refundable income taxes	(436)	994	(695)
Accounts payable	2,317	(1,007)	384
Accrued expenses	(2,243)	1,272	2,143
Retirement and other liabilities	(181)	(417)	190
Other assets	(146)	(368)	(203)
Net cash provided by operating activities	**11,126**	**16,106**	**16,162**
Cash flows from investing activities:			
Additions to property, plant, and equipment	(13,436)	(5,830)	(11,994)
Holdback payment related to the acquisition of Packaging Alternatives Corporation (PAC)	—	(600)	—
Redemption of cash value life insurance	—	37	—
Acquisition of PAC net of cash acquired	—	—	(3,596)
Proceeds from sale of property, plant, and equipment	112	1	86
Net cash used in investing activities	**(13,324)**	**(6,392)**	**(15,504)**
Cash flows from financing activities:			
Distribution to United Development Company Partners (non-controlling interest)	—	—	(1,196)
Excess tax benefits on share-based compensation	1,219	818	832
Proceeds from the exercise of stock options net of attestations	336	191	365
Principal repayment of long-term debt	(977)	(6,601)	(740)
Payment of statutory withholding for stock options exercised and restricted stock units vested	(831)	(879)	(672)
Payment of contingent note payable	(800)	—	—
Proceeds from long-term borrowings	—	580	4,384
Net cash (used in) provided by financing activities	**(1,053)**	**(5,891)**	**2,973**
Net change in cash and cash equivalents	(3,251)	3,823	3,631
Cash and cash equivalents at beginning of year	37,303	33,480	29,849
Cash and cash equivalents at end of year	**$ 34,052**	**$ 37,303**	**$ 33,480**

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

UFP Technologies, Inc. (“the Company”) is an innovative designer and custom converter of foams, plastics, composites and natural fiber products principally serving the medical, automotive, consumer, electronics, industrial and aerospace and defense markets. The Company was incorporated in the State of Delaware in 1993.

(a) Principles of Consolidation

The consolidated financial statements include the accounts and results of operations of UFP Technologies, Inc., its wholly-owned subsidiaries, Moulded Fibre Technology, Inc., Simco Industries, Inc. and Stephenson & Lawyer, Inc. and its wholly-owned subsidiary, Patterson Properties Corporation. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including allowance for doubtful accounts and the net realizable value of inventory, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Fair Value Measurement

The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurement or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and credit risk.

The Company has not elected fair value accounting for any financial instruments for which fair value accounting is optional.

(d) Fair Value of Financial Instruments

Cash and cash equivalents, accounts receivable, accounts payable and accrued taxes and other liabilities are stated at carrying amounts that approximate fair value because of the short maturity of those instruments. The carrying amount of the Company’s long-term debt approximates fair value as the interest rate on the debt approximates the Company’s current incremental borrowing rate.

(e) Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2014 and 2013, cash equivalents primarily consisted of money market accounts and certificates of deposit that are readily convertible into cash.

The Company maintains its cash in bank deposit accounts, money market funds, and certificates of deposit that at times exceed federally insured limits. The Company periodically reviews the financial stability of institutions holding its accounts, and does not believe it is exposed to any significant custodial credit risk on cash. The Company’s main operating account with Bank of America exceeds federal depository insurance limit by approximately $23.2 million.

(f) Accounts Receivable

The Company periodically reviews the collectability of its accounts receivable. Provisions are recorded for accounts that are potentially uncollectable. Determining adequate reserves for accounts receivable requires management’s judgment. Conditions impacting the realizability of the Company’s receivables could cause actual asset write-offs to be materially different than the reserved balances as of December 31, 2014.

(g) Inventories

Inventories include material, labor, and manufacturing overhead and are valued at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

The Company periodically reviews the realizability of its inventory for potential obsolescence. Determining the net realizable value of inventory requires management’s judgment. Conditions impacting the realizability of the Company’s inventory could cause actual asset write-offs to be materially different than the Company’s current estimates as of December 31, 2014.

(h) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost and are depreciated or amortized using the straight-line method over the estimated useful lives of the assets or the related lease term, if shorter.

Estimated useful lives of property, plant, and equipment are as follows:

Leasehold improvements	Shorter of estimated useful life or remaining lease term
Buildings and improvements	20 years
Machinery & Equipment	7-10 years
Furniture, fixtures, computers & software	3-7 years

Property, plant, and equipment amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded is calculated by the excess of the asset's carrying value over its fair value.

(i) Goodwill

Goodwill is tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate that the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are one level below the business segment level, but can be combined when reporting units within the same segment have similar economic characteristics. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. As of September 30, 2014, the Company consists of a single reporting unit. In conjunction with a reassessment of our reportable segments (See Note 19), we performed step 1 of the goodwill impairment test as of September 30, 2014. We utilized the guideline public company ("GPC") method under the market approach and the discounted cash flows method ("DCF") under the income approach to determine the fair value of the reporting unit for purposes of testing the reporting unit's carrying value of goodwill for impairment. The GPC method derives a value by generating a multiple of EBITDA through the comparison of the Company to similar publicly traded companies. The DCF approach derives a value based on the present value of a series of estimated future cash flows at the valuation date by the application of a discount rate, one that a prudent investor would require before making an investment in our equity securities. The key assumptions used in our approach included:

- The reporting unit's 2014 estimated financials and five-year projections of financial results, which were based on our strategic plans and long-range forecasts. Sales growth rates represent estimates based on current and forecasted sales mix and market conditions. The profit margins were projected based on historical margins, projected sales mix, current expense structure and anticipated expense modifications.

- The projected terminal value, which reflects the total present value of projected cash flows beyond the last period in the DCF. This value reflects a growth rate for the reporting unit, which is approximately the same growth rate of expected inflation into perpetuity.

- The discount rate determined using a Weighted Average Cost of Capital method ("WACC"), which considered market and industry data as well as Company-specific risk factors.

- Selection of guideline public companies which are similar to each other and to the Company.

As of September 30, 2014, based on our calculations under the above noted approach, the fair value of the reporting unit exceeded its carrying value by approximately $69.0 million or 74%. In performing these calculations, management used its most reasonable estimates of the key assumptions discussed above. Based on management's review, if any of these individual key assumptions were to change, or if a combination of these key assumptions were to change, the fair value of the reporting unit could be reduced below the carrying value. As a result, if our actual operating results and/or the key assumptions utilized in management's calculations differ from our expectations, it is possible that a future impairment charge may be necessary.

As the Company has elected our fiscal year-end as the annual impairment testing date, the Company assessed qualitative factors as of December 31, 2014, and determined that as there were no material changes in the results of operations or financial condition from the September 30, 2014 impairment test, it was more likely than not that the fair value of its reporting unit exceeded its carrying amount at December 31, 2014. Factors considered included financial performance, forecasts and trends, market cap, regulatory and environmental issues, macro-economic conditions, industry and market considerations, raw material costs and management stability.

(j) Intangible Assets

Intangible assets with a definite life are amortized on a straight-line basis, with estimated useful lives ranging from 5 to 14 years. Intangible assets with a definite life are tested for impairment whenever events or circumstances indicate that their carrying values may not be recoverable.

(k) Revenue Recognition

The Company recognizes revenue at the time of shipment when title and risk of loss have passed to the customer, persuasive evidence of an arrangement exists, performance of its obligation is complete, its price to the buyer is fixed or determinable, and the Company is reasonably assured of collection. If a loss is anticipated on any contract, a provision for the entire loss is made immediately. Determination of these criteria, in some cases, requires management's judgment.

(l) Share-Based Compensation

When accounting for equity instruments exchanged for employee services, share-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant).

The Company issues share-based awards through several plans that are described in detail in Note 12. The compensation cost charged against income for those plans is included in selling, general & administrative expenses as follows (in thousands):

	Year Ended December 31		
	2014	**2013**	**2012**
Share-based compensation expense	$ 1,119	$ 924	$ 860

The compensation expense for stock options granted during the three-year period ended December 31, 2014, was determined as the fair value of the options using the Black Scholes valuation model. The 2013 compensation expense for stock options granted prior to January 1, 2012, was determined as the fair value of the options using a lattice-based option valuation model. The assumptions are noted as follows:

	Year Ended December 31		
	2014	**2013**	**2012**
Expected volatility	32.8% to 37.9%	34.0% to 50.0%	56.9%
Expected dividends	None	None	None
Risk-free interest rate	0.7% to 0.9%	0.4% to 0.7%	0.39%
Exercise price	Closing price on date of grant	Closing price on date of grant	Closing price on date of grant
Expected term	3.8 to 5.0 years	3.3 to 5.0 years	5 years
Weighted-average grant-date fair value	$ 7.24	$ 5.84	$ 7.72

The stock volatility for each grant is determined based on a review of the experience of the weighted average of historical daily price changes of the Company's common stock over the expected option term, and the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected term of the option. The expected term is calculated based on the simplified method.

The total income tax benefit recognized in the statement of operations for share-based compensation arrangements was approximately $320,000, $280,000 and $270,000, for the years ended December 31, 2014, 2013 and 2012, respectively.

(m) Deferred Rent

The Company accounts for escalating rental payments on a straight-line basis over the term of the lease.

(n) Shipping and Handling Costs

Costs incurred related to shipping and handling are included in cost of sales. Amounts charged to customers pertaining to these costs are included in net sales.

(o) Research and Development

On a routine basis, the Company incurs costs related to research and development activity. These costs are expensed as incurred. Approximately $1.2 million, $1.2 million and $1.3 million were expensed in the years ended December 31, 2014, 2013 and 2012, respectively.

(p) Income Taxes

The Company's income taxes are accounted for under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax expense (benefit) results from the net change during the year in deferred tax assets and liabilities. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company evaluates the need for a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. The Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. Should the Company determine that it would not be able to realize all or part of its deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense.

(q) Segments and Related Information

The Company follows the provisions of ASC 280, Segment Reporting, which establish standards for the way public business enterprises report information and operating segments in annual financial statements (see Note 19).

Revisions

Certain revisions have been made to the 2013 Consolidated Balance Sheet to conform to the current year presentation relating to the current and long-term classification of deferred taxes. The impact on the 2013 Consolidated Balance Sheet was a decrease in the amount of $112,000 to both current deferred income taxes (asset) and long-term deferred income taxes (liability). In addition, certain revisions have been made to the 2013 and 2012 Consolidated Statements of Operations to conform to the current year presentation relating to classification of certain rent and indirect labor items. The impact on the Consolidated Statements of Operations was a decrease to costs of sales and an increase to selling, general and administrative expenses in the amounts of $365,000 and $134,000 for the years 2013 and 2012, respectively. These revisions had no impact on previously reported net income or cash flows and are deemed immaterial to the previously issued financial statements.

Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This standard will replace most existing revenue recognition guidance when it becomes effective January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition methods. The Company is evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our consolidated financial position and results of operations.

There were no new accounting pronouncements adopted during 2014 that had a material effect on our consolidated financial statements.

(2) Supplemental Cash Flow Information

Cash paid for interest and income taxes is as follows (in thousands):

	Year Ended December 31		
	2014	**2013**	**2012**
Interest	$ 112	$ 210	$ 58
Income taxes, net of refunds	$ 3,259	$ 4,199	$ 4,960

During the years ended December 31, 2014 and 2013, the Company permitted the exercise of stock options with exercise proceeds paid with the Company's stock ("cashless" exercises) totaling approximately $372,000 and $225,000, respectively.

The purchase of substantially all of the assets of Packaging Alternatives Corporation in 2012 included consideration in the form of a holdback of $600,000 and a long-term note valued at $692,000.

(3) Receivables

Receivables consist of the following (in thousands):

	December 31	
	2014	2013
Accounts receivable—trade	$ 16,972	$ 17,544
Less allowance for doubtful receivables	(502)	(512)
	$ 16,470	**$ 17,032**

Receivables are written off against these reserves in the period they are determined to be uncollectible, and payments subsequently received on previously written-off receivables are recorded as a reversal of the bad debt provision. The Company performs credit evaluations on its customers and obtains credit insurance on a large percentage of its accounts, but does not generally require collateral. The Company recorded a provision for doubtful accounts of approximately $171,000 and $32,000 for the years ended December 31, 2014 and 2013, respectively.

(4) Inventories

Inventories consist of the following (in thousands):

	December 31	
	2014	2013
Raw materials	$ 7,145	$ 6,627
Work in process	1,142	1,056
Finished goods	4,606	3,365
	$ 12,893	**$ 11,048**

(5) Other Intangible Assets

The carrying values of the Company's definite-lived intangible assets as of December 31, 2014 and 2013, are as follows (in thousands):

	Patents	Non-Compete	Customer List	Total
Estimated useful life	14 years	5 years	5 years	
Gross amount at December 31, 2014	$ 429	$ 512	$ 2,046	$ 2,987
Accumulated amortization at December 31, 2014	(429)	(325)	(1,280)	(2,034)
Net balance at December 31, 2014	**$ —**	**$ 187**	**$ 766**	**$ 953**
Gross amount at December 31, 2013	$ 429	$ 512	$ 2,046	$ 2,987
Accumulated amortization at December 31, 2013	(429)	(249)	(963)	(1,641)
Net balance at December 31, 2013	**$ —**	**$ 263**	**$ 1,083**	**$ 1,346**

Amortization expense related to intangible assets was approximately $393,000, $478,000 and $164,000, respectively, for the years ended December 31, 2014, 2013 and 2012. Future amortization for the years ending December 31 will be approximately (in thousands):

2015	$ 318
2016	318
2017	317
Total	**$ 953**

(6) Property, Plant, and Equipment

Property, plant, and equipment consist of the following (in thousands):

	December 31	
	2014	2013
Land and improvements	$ 1,613	$ 840
Buildings and improvements	15,988	12,576
Leasehold improvements	2,897	2,918
Machinery & Equipment	47,756	41,964
Furniture, fixtures, computers & software	5,291	4,903
Construction in progress–equipment	2,278	1,373
	$ 75,823	**$ 64,574**

Depreciation and amortization expense for the years ended December 31, 2014, 2013 and 2012, were approximately $4.0 million, $3.6 million and $2.8 million, respectively.

(7) Investment in and Advances to Affiliated Partnership

In prior periods the Company had a 26.32% ownership interest in a realty limited partnership, United Development Company Limited ("UDT"). The Company had consolidated the financial statements of UDT for prior periods because it determined that UDT was a Variable Interest Entity ("VIE") of which the Company was the primary beneficiary. On February 29, 2012, the Company purchased the manufacturing building that it leased from UDT for $1,350,000. Since this transaction took place among commonly controlled companies, the building was recorded by the Company at UDT's carrying value. Subsequently, UDT was dissolved and its assets were distributed. Thus, in effect, the Company has acquired the remaining 73.68% ownership interest in UDT, eliminating the VIE. The non-controlling interests' portion of the excess of the amount paid for the building over UDT's carrying value, totaling $329,972, which is net of the tax effect of the difference in the Company's book basis versus tax basis in the acquired building attributable to the non-controlling interest, has been recorded in stockholders' equity as a reduction to additional paid-in capital. The transaction did not impact the consolidated results of operations.

(8) Indebtedness

On December 2, 2013, the Company entered into an unsecured $40 million revolving credit facility with Bank of America, N.A. The credit facility calls for interest of LIBOR plus a margin that ranges from 1.0% to 1.5% or, at the discretion of the Company, the bank's prime rate less a margin that ranges from 0.25% to zero. In both cases the applicable margin is dependent upon Company performance. Under the credit facility, the Company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant. The credit facility was amended effective December 31, 2014, to modify the definition of "consolidated fixed-charge coverage ratio". The Company was in compliance with all covenants at December 31, 2014. The Company's $40 million credit facility matures on November 30, 2018.

In conjunction with the execution of the credit facility, the Company fully paid approximately $5.1 million in debt previously outstanding under the Company's prior credit facility with Bank of America, N.A., which was terminated on December 2, 2013. As of December 31, 2014, the Company had no borrowings outstanding under the credit facility.

On October 11, 2012, the Company entered into a loan agreement to finance the purchase of two new molded fiber machines. The annual interest rate is fixed at 1.83%. As of December 31, 2014, approximately $5.0 million had been advanced on the loan and the outstanding balance was approximately $2.9 million. The loan will be repaid over a five-year term. The loan is secured by the related molded fiber machines.

Long-term debt consists of the following (in thousands):

	December 31	
	2014	**2013**
Equipment loans	$ 2,866	$ 3,843
Total long-term debt	**2,866**	**3,843**
Current Installments	(993)	(976)
Long-term debt, excluding current installments	**$ 1,873**	**$ 2,867**

Aggregate maturities of long-term debt are as follows (in thousands):

Year ending December 31:	
2015	$ 993
2016	1,014
2017	859
	$ 2,866

(9) Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31	
	2014	**2013**
Compensation	$ 1,811	$ 2,568
Benefits/self-insurance reserve	411	588
Paid time off	921	883
Commissions payable	164	503
Unrecognized tax benefits (See Note 10)	425	275
Customer deposit	—	1,427
Contingent note payable - PAC (See Note 18)	—	745
Other	1,490	1,276
	$ 5,222	**$ 8,265**

(10) Income Taxes

The Company's income tax provision for the years ended December 31, 2014, 2013 and 2012 consists of the following (in thousands):

	Years Ended December 31		
	2014	**2013**	**2012**
Current:			
Federal	$ 2,638	$ 4,353	$ 4,301
State	336	824	768
	2,974	**5,177**	**5,069**
Deferred:			
Federal	1,262	641	699
State	(30)	99	(89)
	1,232	**740**	**610**
Total income tax provision	**$ 4,206**	**$ 5,917**	**$ 5,679**

At December 31, 2014, the Company had net operating loss carryforwards for federal income tax purposes of approximately $710,000, which are available to offset future taxable income and expire during the federal tax year ending December 31, 2019. The future benefit of the federal net operating loss carryforwards will be limited to approximately $300,000 per year in accordance with Section 382 of the Internal Revenue Code.

The approximate tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows (in thousands):

	December 31	
	2014	**2013**
Current deferred tax assets:		
Reserves	$ 428	$ 383
Inventory capitalization	264	244
Compensation programs	139	204
Retirement liability	35	33
Equity-based compensation	276	246
Total current deferred tax assets:	**$ 1,142**	**$ 1,110**
Long-term deferred tax assets/(liabilities):		
Excess of book over tax basis of fixed assets	$ (3,471)	$ (2,413)
Goodwill	(848)	(827)
Total long-term deferred tax liabilities	**$ (4,319)**	**$ (3,240)**
Net operating loss carryforwards	$ 242	$ 342
Deferred rent	36	46
Intangible assets	188	117
Compensation programs	265	411
Total long-term deferred tax assets	**731**	**916**
Net long-term deferred tax liabilities	**$ (3,588)**	**$ (2,324)**

The amounts recorded as deferred tax assets as of December 31, 2014, and 2013, represent the amount of tax benefits of existing deductible temporary differences or carryforwards that are more likely than not to be realized through the generation of sufficient future taxable income within the carryforward period. The Company has total deferred tax assets of $1.8 million at December 31, 2014, that it believes are more likely than not to be realized in the carryforward period. Management reviews the recoverability of deferred tax assets during each reporting period.

The actual tax provision for the years presented differs from the "expected" tax provision for those years, computed by applying the U.S. federal corporate rate of 34.0% to income before income tax expense as follows:

	Years Ended December 31		
	2014	**2013**	**2012**
Computed "expected" tax rate	34.0%	34.0%	34.0%
Increase (decrease) in income taxes resulting from:			
State taxes, net of federal tax benefit	1.1	3.6	2.7
Meals and entertainment	0.3	0.1	0.1
R&D credits	(0.7)	(1.0)	(0.1)
Domestic production deduction	(1.4)	(2.4)	(2.5)
Non-deductible ISO stock option expense	0.4	0.2	0.1
Unrecognized tax benefits	1.3	(0.1)	(0.2)
Other	0.8	-	0.2
Effective tax rate	**35.8%**	**34.4%**	**34.3%**

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has not been audited by any state for income taxes with the exception of returns filed in Michigan which have been audited through 2004, income tax returns filed in Massachusetts which have been audited through 2007 and income tax returns filed in Florida which have been audited through 2009. The Company's federal tax return for 2008 has been audited. Federal and state tax returns for the years 2011 through 2013 remain open to examination by the IRS and various state jurisdictions.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits ("UTB") resulting from uncertain tax positions is as follows (in thousands):

	December 31	
	2014	**2013**
Gross UTB balance at beginning of fiscal year	$ 275	$ 290
Increases for tax positions of prior years	195	10
Reductions for tax positions of prior years	(45)	(25)
Gross UTB balance at end of fiscal year	**$ 425**	**$ 275**

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of December 31, 2014 and 2013, are $425,000 and $275,000, respectively, for each year.

The total amount of accrued interest and penalties on uncertain tax positions at December 31, 2014 and 2013 was $195,000 and $0, respectively.

At December 31, 2014, all of the unrecognized tax benefits relate to tax returns of a specific state jurisdiction that are currently under examination. Accordingly, the Company expects a reduction of this amount during 2015, since the Company expects to resolve this examination in 2015.

(11) Net Income Per Share

Basic income per share is based upon the weighted average common shares outstanding during each year. Diluted income per share is based upon the weighted average of common shares and dilutive common stock equivalent shares outstanding during each year. The weighted average number of shares used to compute both basic and diluted income per share consisted of the following (in thousands):

	Years Ended December 31		
	2014	**2013**	**2012**
Basic weighted average common shares outstanding during the year	7,028	6,824	6,679
Weighted average common equivalent shares due to stock options and restricted stock units	147	281	349
Diluted weighted average common shares outstanding during the year	**7,175**	**7,105**	**7,028**

The computation of diluted earnings per share excludes the effect of the potential exercise of stock awards, including stock options, when the average market price of the common stock is lower than the exercise price of the related options during the period. These outstanding stock awards are not included in the computation of diluted earnings per share because the effect would have been antidilutive. For the years ended December 31, 2014, 2013 and 2012, the number of stock awards excluded from the computation was 53,651, 78,908 and 17,770, respectively.

(12) Stock Option and Equity Incentive Plans

Employee Stock Option Plan

The Company's 1993 Employee Stock Option Plan ("Employee Stock Option Plan"), which is stockholder approved, provides long-term rewards and incentives in the form of stock options to the Company's key employees, officers, employee directors, consultants, and advisors. The plan provides for either non-qualified stock options or incentive stock options for the issuance of up to 1,550,000 shares of common stock. The exercise price of the incentive stock options may not be less than the fair market value of the common stock on the date of grant, and the exercise price for non-qualified stock options shall be determined by the Compensation Committee. These options expire over 5- to 10-year periods.

Options granted under the plan generally become exercisable with respect to 25% of the total number of shares subject to such options at the end of each 12-month period following the grant of the options, except for options granted to officers, which may vest on a different schedule. At December 31, 2014, there were 15,000 options outstanding under the Employee Stock Option Plan. The plan expired on April 12, 2010.

Incentive Plan

In June 2003, the Company formally adopted the 2003 Incentive Plan (the "Plan"). The Plan was originally intended to benefit the Company by offering equity-based incentives to certain of the Company's executives and employees, thereby giving them a permanent stake in the growth and long-term success of the Company and encouraging the continuance of their involvement with the Company's businesses. The Plan was amended effective June 4, 2008, to permit certain performance-based cash awards to be made under the Plan. The Plan was further amended on June 8, 2011, to increase the maximum number of shares of common stock in the aggregate to be issued to 2,250,000. The amendment also added appropriate language so as to enable grants of stock-based awards under the Plan to continue to be eligible for exclusion from the $1,000,000 limitation on deductibility under Section 162(m) of the Internal Revenue Code (the "Code"). The Plan was further amended on March 7, 2013, to (i) prohibit the repricing of stock options or other equity awards without the consent of the Company's shareholders, and (ii) prohibit the Company from buying out underwater stock options.

Two types of equity awards may be granted to participants under the Plan: restricted shares or other stock awards. Restricted shares are shares of common stock awarded subject to restrictions and to possible forfeiture upon the occurrence of specified events. Other stock awards are awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares of common stock. Such awards may include Restricted Stock Unit Awards ("RSUs"), unrestricted or restricted stock, incentive and non-qualified stock options, performance shares, or stock appreciation rights. The Company determines the form, terms, and conditions, if any, of any awards made under the Plan.

Through December 31, 2014, 1,150,533 shares of common stock have been issued under the 2003 Incentive Plan, none of which have been restricted. An additional 35,088 shares are being reserved for outstanding grants of RSUs and other share-based compensation that are subject to various performance and time-vesting contingencies. The Company has also granted awards in the form of stock options under this Plan. Through December 31, 2014, 170,000 options have been granted and 115,000 options are outstanding. At December 31, 2014, 905,629 shares or options are available for future issuance in the 2003 Incentive Plan.

Director Plan

Effective July 15, 1998, the Company adopted the 1998 Director Plan, which was amended and renamed, on June 3, 2009, the 2009 Non-Employee Director Stock Incentive Plan (the "Director Plan"). The Director Plan was amended on March 7, 2013, to (i) prohibit the repricing of stock options or other equity awards without the consent of the Company's shareholders, and (ii) prohibit the Company from buying out underwater stock options. The Director Plan, as amended, provides for the issuance of stock options and other equity-based securities of up to 975,000 shares to non-employee members of the Company's board of directors. Through December 31, 2014, 289,782 options have been granted and 210,107 options are outstanding. For the year ended December 31, 2014, 5,092 shares of common stock were issued and 177,993 shares remained available to be issued under the Director Plan.

The following is a summary of stock option activity under all plans:

	Shares Under Options	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding December 31, 2013	**467,500**	**$ 9.00**	—	—
Granted	35,193	24.69	—	—
Exercised	(162,586)	4.36	—	—
Cancelled or expired	—	—	—	—
Outstanding December 31, 2014	**340,107**	**$ 12.84**	**3.83**	**$ 4,008**
Exercisable at December 31, 2014	**257,608**	**$ 10.35**	**3.92**	**$ 3,675**
Vested and expected to vest at December 31, 2014	**340,107**	**$ 12.84**	**3.83**	**$ 4,008**

During the years ended December 31, 2014, 2013 and 2012, the total intrinsic value of all options exercised (i.e., the difference between the market price and the price paid by the employees to exercise the options) was approximately $3.4 million, $2.1 million and $2.0 million, respectively, and the total amount of consideration received from the exercise of these options was approximately $709,000, $416,000 and $506,000, respectively. At its discretion, the Company allows option holders to surrender previously owned common stock in lieu of paying the exercise price and withholding taxes. During the year ended December 31, 2014, 32,164 shares (14,931 for options and 17,233 for taxes) were surrendered at an average market price of $25.42. During the years ended December 31, 2013 and 2012, 26,662 shares were surrendered at an average market price of $20.54 and 22,161 shares were surrendered at an average market price of $18.01, respectively.

During the years ended December 31, 2014, 2013 and 2012, the Company recognized compensation expense related to stock options granted to directors and employees of approximately $354,000, $214,000 and $133,000, respectively.

On February 18, 2014, the Company's Compensation Committee approved an award of $400,000 payable in shares of the Company's common stock to the Company's Chairman, Chief Executive Officer, and President under the 2003 Equity Incentive Plan. The shares were issued on December 15, 2014. The Company has recorded compensation expense of $400,000 for the year ended December 31, 2014. Stock compensation expense of $400,000 and $300,000 was recorded in 2013 and 2012, respectively, for similar awards.

On March 12, 2014, the Company issued 196 shares of unrestricted common stock to a non-employee member of the Company's Board of Directors as part of their retainer for serving on the Board. Based upon the closing price of $25.48 on March 12, 2014, the Company recorded compensation expense of $5,000 associated with the stock issuance for the year ended December 31, 2014.

On June 11, 2014, the Company issued 4,893 shares of unrestricted common stock to the non-employee members of the Company's Board of Directors as part of their annual retainer for serving on the Board. Based upon the closing price of $25.04 on June 11, 2014, the Company recorded compensation expense of $122,000 associated with the stock issuance for the year ended December 31, 2014. The Company recorded compensation expense of $60,000 in 2013 and 2012 for similar awards.

The Company grants RSUs to its executive officers. The stock unit awards are subject to various time-based vesting requirements, and certain portions of these awards are subject to performance criteria of the Company. Compensation expense on these awards is recorded based on the fair value of the award at the date of grant, which is equal to the Company's closing stock price, and is charged to expense ratably during the service period. No compensation expense is taken on awards that do not become vested, and the amount of compensation expense recorded is adjusted based on management's determination of the probability that these awards will become vested. The following table summarizes information about stock unit award activity during the year ended December 31, 2014:

	Restricted Stock Units	Weighted Average Award Date Fair Value
Outstanding at December 31, 2013	**50,900**	**$ 11.94**
Awarded	14,441	25.97
Shares distributed	(30,253)	10.11
Forfeited/Cancelled	—	—
Outstanding at December 31, 2014	**35,088**	**$ 17.87**

The Company recorded approximately $237,000, $250,000 and $368,000 in compensation expense related to these RSUs during the years ended December 31, 2014, 2013 and 2012 respectively.

At the Company's discretion, RSU holders are given the option to net-share settle to cover the required minimum withholding tax, and the remaining amount is converted into the equivalent number of common shares. During the year ended December 31, 2014, 9,878 shares were redeemed for this purpose at an average market price of $25.88. During the years ended December 31, 2013 and 2012, 22,089 and 25,684 shares were redeemed for this purpose at an average market price of $19.29 and $16.10, respectively.

The following summarizes the future share-based compensation expense the Company will record as the equity securities granted through December 31, 2014, vest (in thousands):

	Options	Common Stock	Restricted Stock Units	Total
2015	$ 172	—	$ 196	$ 368
2016	147	—	147	294
2017	46	—	101	147
2018	16	—	16	32
Total	**$ 381**	**$ —**	**$ 460**	**$ 841**

Tax benefits totaling approximately $1,219,000, $818,000 and $831,000 were recognized as additional paid-in capital during the years ended December 31, 2014, 2013 and 2012, respectively, since the Company's tax deductions exceeded the share-based compensation charge recognized for stock options exercised and RSUs vested.

(13) Preferred Stock

On March 18, 2009, the Company declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of common stock, par value $0.01 per share on March 20, 2009, to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value $0.01 per share (the "Preferred Share"), of the Company, at a price of $25.00 per one one-thousandth of a Preferred Share subject to adjustment and the terms of the Rights Agreement. The rights expire on March 19, 2019.

(14) Supplemental Retirement Benefits

The Company provides discretionary supplemental retirement benefits for certain retired officers, which will provide an annual benefit to these individuals for various terms following separation from employment. The Company recorded an expense of approximately $23,000, $17,000 and $32,000 for the years ended December 31, 2014, 2013 and 2012, respectively. The present value of the supplemental retirement obligation has been calculated using a 4.0% discount rate, and is included in retirement and other liabilities. Total projected future cash payments for the years ending December 31, 2015 through 2019, are approximately $25,000 for each year.

(15) Commitments and Contingencies

(a) ***Leases*** – The Company has operating leases for certain facilities that expire through 2018. Certain of the leases contain escalation clauses that require payments of additional rent, as well as increases in related operating costs.

Future minimum lease payments under non-cancelable operating leases as of December 31, 2014, are as follows (in thousands):

Years Ending December 31	Operating Leases
2015	$ 1,443
2016	1,341
2017	921
2018	91
Total minimum lease payments (a)	**$ 3,796**

(a) Minimum payments have not been reduced by minimum sublease rentals of approximately $589,000 due in the future under noncancelable subleases.

Rent expense amounted to approximately $1.8 million, $2.0 million and $2.4 million in 2014, 2013 and 2012 respectively

(b) ***Legal*** – The Company is a defendant in various administrative proceedings that are being handled in the ordinary course of business. In the opinion of management of the Company, these suits and claims should not result in final judgments or settlements that, in the aggregate, would have a material adverse effect on the Company's financial condition or results of operations.

(16) Employee Benefits Plans

The Company maintains a profit sharing plan for eligible employees. Contributions to the Plan are made in the form of matching contributions to employee 401k deferrals, as well as discretionary profit sharing amounts determined by the Board of Directors to be funded by March 15 following each fiscal year. Contributions were approximately $750,000, $800,000 and $760,000 in 2014, 2013 and 2012, respectively.

The Company has a partially self-insured health insurance program that covers all eligible participating employees. The maximum liability is limited by a stop loss of $150,000 per insured person, along with an aggregate stop loss determined by the number of participants.

The Company has an Executive, Non-qualified "Excess" Plan ("the Plan"), which is a deferred compensation plan available to certain executives. The Plan permits participants to defer receipt of part of their current compensation to a later date as part of their personal retirement or financial planning. Participants have an unsecured contractual commitment from the Company to pay amounts due under the Plan. There is currently no security mechanism to ensure that the Company will pay these obligations in the future.

The compensation withheld from Plan participants, together with gains or losses determined by the participants' deferral elections is reflected as a deferred compensation obligation to participants, and is classified within retirement and other liabilities in the accompanying balance sheets. At December 31, 2014 and 2013, the balance of the deferred compensation liability totaled approximately $1.5 million and $1.7 million, respectively. The related assets, which are held in the form of a Company-owned, variable life insurance policy that names the Company as the beneficiary, are reported within other assets in the accompanying balance sheets, and are accounted for based on the underlying cash surrender values of the policies, and totaled approximately $2.0 million and $1.8 million as of December 31, 2014 and 2013, respectively.

(17) Fair Value of Financial Instruments

Financial instruments recorded at fair value in the balance sheets, or disclosed at fair value in the footnotes, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels defined by ASC 820, Fair Value Measurements and Disclosures, and directly related to the amount of subjectivity associated with inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 – Valued based on unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Valued based on either directly or indirectly observable prices for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3 – Valued based on management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The Company has no assets and liabilities that are measured at fair value on a recurring basis.

(18) Acquisition

On December 31, 2012, the Company acquired substantially all of the assets of Packaging Alternatives Corporation ("PAC"), a Costa Mesa, California-based foam fabricator, for $5.7 million. PAC specialized in the fabrication of technical urethane foams primarily for the medical industry. This acquisition brought to the Company further access and expertise in fabricating technical urethane foams, a more significant presence on the west coast and a seasoned management team. The Company has leased the former PAC facility for a period of two years through December 31, 2014.

The following table summarizes the consideration paid and the acquisition date fair value of the assets acquired and liabilities assumed relating to the transaction (in thousands):

PAC Acquisition	**December 31, 2012**
Consideration:	
Cash	$ 4,400
Purchase holdback	600
Contingent note payable, at present value	692
Fair value of total consideration transferred	**$ 5,692**
Acquisition costs (professional fees) included in SG&A	**$ 57**
Recognized amounts of identifiable assets acquired:	

Cash	$ 804
Accounts receivable	1,375
Inventory	737
Other assets	54
Fixed assets	793
Non-compete	312
Customer list	1,277
Goodwill	841
Total identifiable net assets	**6,193**
Accounts payable	(312)
Accrued expenses	(189)
Net assets acquired	**$ 5,692**

Due to a refinement of certain estimates made in the initial purchase price allocation, the Fixed assets, Customer list and Goodwill amounts noted above, were adjusted by approximately ($24,000), ($260,000) and $284,000, respectively, during the year ended December 31, 2013.

With respect to the acquisition of selected assets of PAC, the Company acquired gross accounts receivable of $1,405,000, of which it deemed $30,000 to be uncollectible. It therefore recorded the accounts receivable at its fair market value of $1,375,000. With respect to the non-compete and customer list intangible assets acquired from PAC, the weighted average amortization period is five years. No residual balance is anticipated for any of the intangible assets.

Consideration for the net assets acquired included a note payable to the Sellers in the amount of $800,000. The note was paid in October 2014. The note was discounted to reflect imputed interest at 2% and a probability of payment of 95% and 90% for 2013 and 2012, respectively.

The goodwill recorded of $841,000 approximates the amount of goodwill the Company expects to deduct for tax purposes. The goodwill reflects the excess of consideration to be paid over the fair value of the net assets acquired, and represents the value of the workforce as well as synergies expected to be realized.

The Consolidated Statement of Operations for the year ended December 31, 2013 includes the following operating results for PAC (in thousands):

	Year Ended December 31, 2013
Sales	$ 10,253
Operating Income	438

The following table contains the unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2012, as if the PAC acquisition had occurred at the beginning of 2012 (in thousands):

	Year Ended December 31, 2012 Proforma (Unaudited)
Sales	$ 141,274
Net Income	11,559
Earnings per share:	
Basic	$ 1.73
Diluted	1.64

The above unaudited pro forma information is presented for illustrative purposes only and may not be indicative of the results of operations that would have actually occurred had the PAC acquisition occurred as presented. In addition, future results may vary significantly from the results reflected in such pro forma information.

(19) Segment Data

The Company has historically reported two segments, Component Products and Packaging. However, the Company has been undergoing a shift in the way the business is managed and the way information is used by the Chief Operating Decision Maker (the "CODM"), who is the Chief Executive Officer, to consider risks and opportunities and to make decisions and review performance as further described below. In late 2013 and into 2014 the Company committed to changes to the Company's operations including plant consolidations, consolidation of the Company's sales force, and other strategic initiatives, to coincide with the Company's change in operating strategy to maximize capacity in each plant and enhance customer service across markets. By the end of the third quarter of 2014, many of those initiatives were complete and the Company determined that the existing segment aggregation of Component Products and Packaging was no longer consistent with how the business is structured and reviewed by the CODM. This is primarily because the Company has numerous manufacturing processes that are duplicated through its plants allowing it to move workload based on available capacity and proximity to customers. The CODM evaluates consolidated financial information to manage the business. As a result, the Company has determined that it consists of a single operating and reportable segment.

Revenues from customers outside of the United States are not material. No customer comprised more than 10% of the Company's consolidated revenues for the year ended December 31, 2014. All of the Company's assets are located in the United States.

The Company's custom products are primarily sold to customers within the Medical, Automotive, Consumer, Electronics, Industrial and Aerospace and Defense markets. Sales by market for 2014 are as follows (in thousands) (it is not practical to determine sales by market for previous years):

Market	**Net Sales**	**%**
Medical	$ 50,080	35.9%
Automotive	24,943	17.9%
Consumer	17,366	12.5%
Electronics	17,022	12.2%
Industrial	15,327	11.0%
Aerospace & Defence	14,569	10.5%
Net Sales	**$ 139,307**	

(20) Quarterly Financial Information (unaudited)

Summarized quarterly financial data is as follows (in thousands, except per share data):

2014	**Q1**	**Q2**	**Q3**	**Q4**
Net sales	$ 34,609	$ 34,025	$ 35,406	$ 35,267
Gross profit	9,108	9,476	9,683	8,613
Net income	2,062	1,860	2,066	1,571
Basic net income per share	0.30	0.27	0.29	0.22
Diluted net income per share	0.29	0.26	0.29	0.22

2013	**Q1**	**Q2**	**Q3**	**Q4**
Net sales	$ 33,697	$ 35,832	$ 34,700	$ 34,993
Gross profit	8,902	10,719	10,162	11,231
Net income	2,030	2,982	2,887	3,377
Basic net income per share	0.30	0.44	0.42	0.49
Diluted net income per share	0.29	0.42	0.41	0.47

(21) Plant Consolidation

On January 7, 2014, the Company committed to move forward with a plan to cease operations at its Glendale Heights, Illinois plant and consolidate operations into its Grand Rapids, Michigan, facility. The Company's decision was in response to a pending significant increase in lease cost, declining sales at the Illinois facility, and significant anticipated savings as a result of the consolidation. The consolidation into the Michigan facility is complete and the actual costs incurred are included in the table below.

On July 16, 2014, the Company committed to move forward with a plan to cease operations at its Costa Mesa, California, plant and consolidate operations into its Rancho Dominguez, California, facility and other UFP facilities. The Company's decision was in response to the upcoming December 31, 2014, expiration of the lease on the Costa Mesa facility as well as the close proximity of the two properties. This consolidation is substantially complete and the actual costs incurred through December 31, 2014 are included in the table below.

The Company has recorded the following restructuring costs associated with the plant consolidations discussed above for the year ended December 31, 2014 (in thousands):

Restructuring costs	**Michigan**	**California**	**Total**
Employee severance payments	$ 237	$ 10	$ 247
Relocation costs	356	501	857
Workforce training costs	373	—	373
Plant infrastructure costs	79	—	79
Total restructuring costs	**$ 1,045**	**$ 511**	**$ 1,556**

These costs were reclassified in the 2014 Consolidated Statement of Operations as “Restructuring Costs” as follows: $1,385,000 from Cost of Sales, $82,000 from Selling, General and Administrative expenses and $89,000 from Gain on sales of property, plant and equipment. The Company also incurred approximately $373,000 and $38,000, in related capital improvements at its Michigan and California facilities, respectively, for the year ended December 31, 2014.

(22) Subsequent Events

In January 2015, the Company acquired a 137,000 square foot commercial building on 27 acres in Newburyport, Massachusetts for approximately $6.8 million. The Company anticipates that it will further expand the property and consolidate portions of its Northeast operations into its new property in multiple phases between 2015 and 2017. It expects to incur further costs with the consolidation but also expects the efficiency savings to be significant. It has not yet estimated either the one-time costs or efficiency gains in a potential consolidation of operations.

STOCKHOLDER INFORMATION

TRANSFER AGENT AND REGISTRAR
American Stock Transfer
and Trust Company, LLC
6201 15th Avenue, 3rd Floor
Brooklyn, NY 11219

ANNUAL MEETING
The annual meeting of stockholders will be held at 10:00 a.m., on June 10, 2015, at the Black Swan Country Club, 258 Andover Street, Georgetown, MA 01833, USA.

COMMON STOCK LISTING
UFP Technologies' common stock is traded on NASDAQ under the symbol UFPT.

STOCKHOLDER SERVICES
Stockholders whose shares are held in street names often experience delays in receiving company communications forwarded through brokerage firms or financial institutions. Any shareholder or other interested party who wishes to receive information directly should call or write the Company. Please specify regular or electronic mail:

UFP Technologies, Inc.
Attn.: Shareholder Services
172 East Main Street
Georgetown, MA 01833 USA

phone: (978) 352-2200
e-mail: investorinfo@ufpt.com
web: www.ufpt.com

FORM 10-K REPORT
A copy of the Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as filed with the Securities and Exchange Commission, may be obtained without charge by writing to the Company, or on the Company's website at www.ufpt.com/investors/filings.html.

CORPORATE HEADQUARTERS
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172 East Main Street
Georgetown, MA 01833 USA
(978) 352-2200 phone
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INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS
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125 High Street, 21st Floor
Boston, MA 02110

CORPORATE COUNSELS
Lynch Brewer Hoffman & Fink, LLP
75 Federal Street, 7th Floor
Boston, MA 02110

Brown Rudnick LLP
1 Financial Center
Boston, MA 02111

ABOUT THIS REPORT
The objective of this report is to provide existing and prospective shareholders a tool to understand our financial results, what we do as a company, and where we are headed in the future. We aim to achieve these goals with clarity, simplicity, and efficiency. We welcome your comments and suggestions.

WORLD WIDE WEB
In the interest of providing timely, cost-effective information to shareholders, press releases, SEC filings, and other investor-oriented matters are available on the Company's website at www.ufpt.com/investors/filings.html.

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

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Chairman, CEO and President

Kenneth L. Gestal **d**
President & Managing Partner
Decision Capital, LLC

David B. Gould **d**
President
Westfield, Inc.

Marc Kozin **d**
Senior Advisor
LEK Consulting, LLC

Ronald J. Lataille **o**
Sr. Vice President, Treasurer,
Secretary and
Chief Financial Officer

Thomas Oberdorf **d**
Chief Financial Officer
SIRVA, Inc.

Robert W. Pierce, Jr. **d**
Chairman, CEO,
and Co-Owner
Pierce Aluminum Co.

Lucia Luce Quinn **d**
Chief People Officer
Forrester Research, Inc.

Mitchell C. Rock **o**
Sr. Vice President
Sales and Marketing

Daniel J. Shaw, Jr. **o**
Vice President
Research and Development

W. David Smith **o**
Sr. Vice President
Operations

David K. Stevenson **d**
Director, Trustee,
and Consultant

d Directors **o Officers**

OPERATING PRINCIPLES

CUSTOMERS

We believe the primary purpose of our company is to serve our customers. We seek to "wow" our customers with responsiveness and great products.

ETHICS

We will conduct our business at all times and in all places with absolute integrity with regard to employees, customers, suppliers, community, and the environment.

EMPLOYEES

We are dedicated to providing a positive, challenging and rewarding work environment for all of our employees.

QUALITY

We are dedicated to continuously improving our quality of service, quality of communications, quality of relationships, and quality of commitments.

SIMPLIFICATION

We seek to simplify our business process through the constant re-examination of our methods and elimination of all non-value-added activities.

ENTREPRENEURSHIP

We strive to create an environment that encourages autonomous decision-making and a sense of ownership at all levels of the company.

PROFIT

Although profit is not the sole reason for our existence, it is the lifeblood that allows us to exist.

UFP TECHNOLOGIES

172 East Main Street, Georgetown, MA 01833 | 800 372 3172 | ufpt.com